

VZCZCXRO2664
OO RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHRK #0246 2971753
ZNY CCCCC ZZH
O 231753Z OCT 08
FM AMEMBASSY REYKJAVIK
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3859
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
RUEHLO/AMEMBASSY LONDON 0148
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L REYKJAVIK 000246

SIPDIS

STATE FOR EUR/FO A/S Dan Fried

E.O. 12958: DECL: 10/22/2018

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [IC](#)

SUBJECT: ICELANDIC ECONOMIC CRISIS: GOI - UK NEGOTIATIONS ON ICESAVE
ACCOUNTS GO BADLY

Classified By: Economic Section Chief Fiona Evans for reasons 1.4 (b)
and (d).

1.(C) Ministry for Foreign Affairs External Trade Director Martin Eyjolfsson bleakly described for Ambassador and EconOff the difficult, ongoing negotiations with the British delegation over the obligation and repayment connected with the Icelandic IceSave accounts in the U.K. Eyjolfsson said the British government sent a "technical delegation" to negotiate; the team consists of Finance Ministry and the Bank of England officials, but no diplomatic representatives. He said the lack of diplomatic presence has made it difficult for the British team to appreciate the full effects of the British authorities' actions in seizing Icelandic assets under terrorism legislation. Eyjolfsson said, "If the U.K. had seized France's sovereign gold reserves like they had Iceland's, a war between France and the U.K. would have broken out by now." (Note: Featured in the Icelandic media today is the online petition "Icelanders Are Not Terrorists," (www.indefense.is) which is collecting photographs and signatures to send to PM Gordon Brown protesting the seizure of Icelandic assets under the terrorism law. End Note.)

12. (C) According to Eyjolfsson, the Icelanders are arguing over both the principle and the terms of an agreement. Eyjolfsson asserted that the EU Directive concerning bank funded insurance was not designed for a systemic meltdown and that the obligations of the state in such circumstances were not crystal clear. He said the Icelanders want to take this issue before the European Court of Justice, but the British team refused. Eyjolfsson said he told the Brits it would be impossible politically for the government to sell their proposals to Parliament or the electorate. He said that since there is no diplomatic element to the delegation that this argument had no traction. Eyjolfsson said the only concern of the UK is "to nail down the terms of a loan so they can get their money." He mentioned that the Brits had tossed out the figure of 13.5 percent interest, but the Icelanders offered 6 percent. The Icelanders had asked for a twenty year term but the Brits countered with a ten year term. Eyjolfsson said even if they come to a deal, they will still need approval by the Icelandic Parliament. He noted that the Dutch agreement signed last week had only been initialed as an MOU and that also faced parliamentary approval.

13. (C) Eyjolfsson said that the Icelandic public needs time to absorb the enormity of the crisis. No one really fathoms yet that the government is going to go from ten percent of GDP as debt to 140 percent. He illustrated that each Icelandic household would have to pay at least 500 USD every month - a fifth of their household income - for the next ten years just to service the interest of a loan to pay off the IceSave accounts. The IMF loan would come on top of this debt burden. Eyjolfsson was emotional as he described some of the dire economic forecasts and said he just could not see how this was going to end or how the future of his young children could be ensured. He, as have others recently, predicted a mass emigration of talent from the country as the best and brightest will refuse to spend their lives under the burden of paying off the national debt.

14. (C) Comment: Eyjolfsson's unusually frank and open discussion of ongoing negotiations with the UK team are just one indication of how unusual and desperate is the situation here. The enormity of the debt and the responsibility of the Icelanders are not well understood by many here. Many of those who do understand are near despair.

VAN VOORST